



J. TYLER McCaULEY
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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October 9, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley By
Auditor-Controller PTM

SUBJECT: **REVIEW OF MID-SAN GABRIEL VALLEY CONSORTIUM'S FINANCIAL
TRANSACTIONS**

As requested by the Department of Community and Senior Services (CSS or Department), we contracted with Edwards, Eichel & Beranek, Certified Public Accountants (EE&B) to review the financial transactions of Mid-San Gabriel Valley Consortium (MSGVC). In November 2002, the Department terminated its contract with MSGVC because of financial management issues and subsequently requested the review to determine the disposition of funds.

It should be noted that, following the termination of MSGVC's contract, personnel who worked for MSGVC could not be located and thus were not available to be interviewed. In addition, MSGVC's Board of Directors did not authorize the release of key information from MSGVC's payroll contractors to EE&B.

Summary of Findings

Based on information contained in EE&B's report (attached), we noted the following:

- **All funds received by MSGVC from CSS were deposited in either MSGVC's general or payroll bank accounts.** EE&B reconciled all of the payments CSS made to MSGVC to MSGVC's monthly bank statements from July 1, 2001 through November 30, 2002.
- **MSGVC did not submit claims for reimbursement for expenditures incurred in October and November 2002.** EE&B estimated the amount CSS could owe is approximately \$624,000 based on their review of MSGVC's bank statements. However, documentation was not available to determine if this amount was for valid program expenditures. In addition, this amount can change based on the

appropriateness of the \$1.5 million transferred from the MSGVC to its payroll contractors from July 1, 2001 through November 30, 2002.

- **MSGVC owes vendors.** MSGVC did not maintain updated accounts payable records that identify amounts owed to vendors and sub-contractors. EE&B worked with CSS to send confirmation letters to all vendors and sub-contractors that the MSGVC conducted business with during Fiscal Year 2001-02. Based on the responses received by CSS by the cut-off date, the vendors and sub-contractors reported a balance of approximately \$852,000 owed to them by MSGVC.
- **As previously noted, MSGVC's Board of Directors did not authorize the release of key information from MSGVC's payroll contractors to EE&B.** On September 8, 2003, an attorney representing MSGVC's Board of Directors sent a letter to the MSGVC's payroll contractor(s) authorizing the release of this key information to the CSS. In their attached response, CSS stated that it will review the appropriateness of funds transferred from MSGVC to its payroll contractors.

Recommendations

CSS should review the payroll information, which the attorney representing MSGVC recently authorized releasing, to determine if the transfers to the payroll contractors were valid program expenditures. In addition, CSS also should work with MSGVC to confirm that the amounts owed by MSGVC to individual vendors and sub-contractors are for valid program expenditures prior to paying them. CSS should also consult with County Counsel regarding the County's responsibility for MSGVC's vendor liabilities, in the event MSGVC is unable to pay them.

Please call me if you have any questions, or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:DC

Attachments

c: David E. Janssen, Chief Administrative Officer
Department of Community and Senior Services
Robert Ryans, Director
Cynthia Banks, Chief Deputy
Josie Marquez, Assistant Director
Ken Kessler, Assistant Director
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

EDWARDS, EICHEL & BERANEK
CERTIFIED PUBLIC ACCOUNTANTS

September 12, 2003

Mr. J. Tyler McCauley
Los Angeles County Auditor-Controller

We have completed our review of Mid-San Gabriel Valley Consortium's (MSGVC's) financial transactions for the periods July 1, 2001 through June 30, 2002, and July 1, 2002 through November 30, 2002.

Background

In March 2003, our firm entered into a work order to conduct the review on behalf of the Department of Community and Senior Services (CSS). The work order included two phases. Phase I required us to review the completeness of MSGVC's financial records for the periods under review and, based on this assessment, develop a work plan to conduct the financial audits (Phase II). We completed Phase I in June 2003. Phase II required us to determine the following:

- The amount of cash on-hand as of November 30, 2002.
- MSGVC's accounts payable and accounts receivable balances as of November 30, 2002.
- The amount of recorded and documented program revenue MSGVC received from CSS during the period of July 1, 2001, through November 30, 2002.
- The amount of recorded and documented program expenses MSGVC paid during the period of July 1, 2001, through November 30, 2002.

Methodology

With the termination of CSS' contract with MSGVC, effective November 2002, personnel who worked for the MSGVC dispersed and are not available for interview. The MSGVC's financial records were incomplete and MSGVC staff did not clearly identify documentation to support its expenditures. In addition, at the time we conducted our testwork, the MSGVC's Board of Directors did not authorize the release of key information from the MSGVC's payroll contractor(s).

To complete our review, we compiled the deposit and withdrawal amounts reported on the MSGVC's general and payroll bank statements for the periods under review. We also reviewed the MSGVC's Single Audit report for Fiscal Year 2000-01 and reviewed the accounting firm's audit work papers. Finally, we interviewed CSS managers and staff, who worked with the MSGVC and the accounting firm's partner and staff that completed the Fiscal Year 2000-01 Single Audit.

Results of Review

- **As of March 31, 2003 (the most current bank statements provided to us by the bank), the MSGVC's cash balance for its general account is \$7,656 and the cash balance for its payroll account is \$34,586.** We also noted that for the period of July 1, 2002 to November 30, 2002, the MSGVC transferred approximately \$779,000 from its payroll account to a contractor responsible for processing the MSGVC's payroll. (It should be noted that during the prior fiscal year, the MSGVC transferred approximately \$752,000 to its payroll contractors.) We were unable to determine the justification for the transfers or the MSGVC's use of the transferred funds. In addition, we could not locate signed contracts or other documented authorization for services between the payroll contractors and the MSGVC. The payroll contractor for the period July 1, through November 30, 2002 would not release any information regarding the transfers (e.g., use of the funds, current account balance, etc.) unless the MSGVC's Board of Directors (Board) authorized the release. The MSGVC's Board did not submit an authorization for the release of this information despite our repeated requests. In its attached response, CSS indicated they will continue to work with County Counsel to seek the release of the information necessary to ensure the expenditures were appropriate.
- **We did not identify any outstanding account receivables for the MSGVC.** According to CSS, all claims submitted to the County by the MSGVC have been paid. However, we noted below that the MSGVC did not submit claims for reimbursement in October and November 2002, which may result potential receivables from CSS.
- **MSGVC did not maintain updated accounts payable records so that we could identify amounts owed to vendors and sub-contractors.** As a result, we worked with CSS to send confirmation letters to all vendors and sub-contractors that the MSGVC conducted business with during Fiscal Year 2001-02. The confirmation letters requested the vendors and sub-contractors to identify the amounts owed to them by the MSGVC and to attach documentation to support the reported amounts and submit the information to CSS by August 15, 2003. Based on the responses received by the cut-off date, the vendors and sub-contractors reported a balance of approximately \$852,000 owed to them by MSGVC. Responses received through the date of this report indicate matters requiring further review as to dates work for the Consortium ceased on the part of trainers, services ceased on the part of vendors and suppliers. In its attached

response, CSS indicated that they will work with the Consortium's new Board of Directors to validate the account payables reported by the vendors and sub-contractors, such as ensuring the amounts reported by the vendors and sub-contractors have not previously been paid and whether such costs are allowable under the application grant program.

- **Our reconciliation of amounts paid by CSS to amounts deposited into MSGVC's general and payroll bank accounts noted all payments issued by CSS were deposited in the MSGVC's bank accounts.**
- **Our analysis of the financial transactions for the periods July 1, 2002 through November 30, 2002 (Attachment I) and July 1, 2001 through June 30, 2002 (Attachment II) noted that the MSGVC reported expenditures exceeded their reported revenues from County sources by approximately \$624,000 (\$495,663 plus \$128,006). However, documentation was not available to determine whether this excess of \$624,000 was for valid program expenditures. In addition, this amount can significantly change based upon the appropriateness of the \$1.5 million transferred from the MSGVC to the payroll contractors (\$779,087 plus \$751,192) during the same periods, and whether either payroll contractor may have a balance of funds remaining.**

Edwards, Eichel & Beranek

Edwards, Eichel & Beranek

Attachment

Mid-San Gabriel Valley MSGVC
Financial Activity
Per the General Account and Payroll Bank Statements

Five months ended November 30, 2002

Revenues

Gross receipts general and payroll bank account		\$1,811,286
Less: Receipts July and August attributed to previous year (1)		<u>(615,369)</u>
Gross revenues		<u>1,195,917</u>

Expenditures

General account through November		635,745
Payroll		
Payroll checks through December (2)	323,607	
Transfers to PayChex (3)	<u>779,087</u>	<u>1,102,694</u>
		1,738,439
Less: July checks charged year ended		
June 30, 2002 (4)		<u>(46,859)</u>
Total payments		<u>1,691,580</u>
Excess of payments over receipts		<u>\$ 495,663</u>

1. To account for the timing delays between the MSGVC submitting claims to CSS and CSS reimbursing the MSGVC, we attributed the deposits posted to the Consortium's bank accounts in July and August 2002 to reimbursement of expenses incurred in the prior fiscal year. As a result, the gross receipt total was reduced by this amount.
2. This amount reflects the amount of payroll processed through the MSGVC's payroll bank account during the period under review.
3. This amount reflects the transfers of funds from the MSGVC's payroll bank account to the payroll contractor. The MSGVC's Board of Directors did not authorize the contractor to release key information to us in order for us to evaluate the appropriateness of the transfer of funds.
4. We attributed the checks that cleared both bank accounts in July 2002 to expenditures incurred in the prior fiscal year. The gross expenditure total was reduced by this amount.

Attachment II

Mid-San Gabriel Valley MSGVC
Financial Activity
Per the General Account and Payroll Bank Statements

Year ended June 30, 2002

Revenues

Gross receipts bank accounts (net of credit line receipt \$99,750, and funds received from other sources \$153,207)		\$ 3,638,156
Less: Accounts receivable per June 30, 2001 audit report		<u>(1,155,522)</u>
		2,482,634
July and August 2002 receipts (1)		615,369
Amounts held to offset June 30, 2001 overage		<u>799,018</u>
Gross revenues		<u>3,897,021</u>

Expenditures

Checks paid general account		2,467,225
Payroll checks paid (2)	1,138,766	
Transfers to ADP and PayChex (3)	<u>751,192</u>	<u>1,889,958</u>
		4,357,183
Less: June 30, 2001 payables and accruals		(199,015)
\$180,000 paid to reduce June 30, 2001 overage		<u>(180,000)</u>
		3,978,168
Add: July 2002 checks paid (4)		<u>46,859</u>
Total payments		<u>4,025,027</u>
Excess of payments over receipts		<u>\$ 128,006</u>

1. This amount was reimbursed during Fiscal Year 2002-03, but due to timing differences, we attributed the amounts to Fiscal Year 2001-02 expenditures. (See footnote 1 on attachment I.)
2. This amount reflects the amount of payroll processed through the MSGVC's payroll bank account during the period under review.
3. This amount reflects the transfers of funds from the MSGVC's payroll bank account to the payroll contractors.

Attachment II

4. We attributed the checks that cleared both bank accounts in July 2002 to expenditures incurred in the prior fiscal year. The gross expenditure total for the Fiscal Year 2001-02 was increased by this amount. (See footnote 4 on attachment I.)



ROBERT RYANS
Director

COMMUNITY AND SENIOR SERVICES OF LOS ANGELES COUNTY

BOARD OF SUPERVISORS

GLORIA MOLINA
YVONNE BRATHWAITE BURKE
ZEV YAROSLAVSKY
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MICHAEL D. ANTONOVICH

September 30, 2003

Mr. J. Tyler McCauley
Department of the Auditor-Controller
525 Kenneth Hahn Hall of Administration
Los Angeles, CA 90012

Dear Mr. McCauley:

RESPONSE TO THE REVIEW OF MID-SAN GABRIEL VALLEY CONSORTIUM'S FINANCIAL TRANSACTIONS.

We have reviewed the report issued by Edwards, Eichel & Beranek, Certified Public Accountants (Auditor), on their review of Mid-San Gabriel Valley Consortium's (MSGVC's) financial transactions. During the review, the Department of Community and Senior Services (CSS) managers and staff assisted the Auditor in identifying the amounts MSGVC owes to vendors and sub-contractors. CSS managers, along with County Counsel, also worked with the attorney representing the MSGVC to gain access to information the Auditor needed for his review.

Based on the Auditor's review, we are undertaking the following actions:

- **Work with County Counsel and the attorney representing MSGVC to gain access to payroll information to determine the appropriateness of payments made by MSGVC to its payroll contractor (Paychex).** This includes the listing of individuals paid by Paychex using MSGVC funds, the current account balance, and an executable agreement between Paychex and MSGVC.
- **Work with MSGVC and its subcontractors and vendors to validate the approximately \$852,000 that the subcontractors and vendors claimed MSGVC owes them.** This includes ensuring the amounts reported by the vendors and sub-contractors have not previously been paid and whether such costs are allowable. To date \$191,743.77 in claims have been received and validated for vendors who have responded to the "Request for Invoices" sent to both Training and Services Providers. September 30, 2003 is the cut-off date for any final requests for payments; at that time we will conclude our final validation process.

- **Review claims for reimbursement submitted by MSGVC that have not yet been paid.** The Auditor's review of MSGVC's bank statements from July 2001 through November 2003 noted that MSGVC has approximately \$624,000 in unreimbursed expenditures. However, the Auditor also noted that this amount may change based on whether the transactions were for valid program activities.


We plan to complete our review in these areas within 60 days and issue a report to the Board detailing the actions taken by the Department to bring closure to these issues. We will also continue working with County Counsel and the MSGVC's Board of Directors to resolve any other issue that might develop.

If you have any questions please call me at (213) 738-2617 or Kenneth Kessler, of my staff, at (213) 738-2620.

Sincerely,


ROBERT RYANS, Director

c.


Ken Kessler
Josie Marquez
Maggie Mireles
Jackie Lynn Sakane